SAACE - BUSINESS CONFIDENCE HIGHEST EVER!

The results of the recently released annual South African Association of Consulting Engineer's (SAACE) Management Information Survey (MIS) for the period July 05 to December 05, indicates that business confidence is booming. Firms are extremely positive about the future for the industry, as confidence levels (weighted) are running close to 100%, meaning that almost 100% of firms expect working conditions to be satisfactory over the next 6 to 12 months. This despite an industry challenged by lack of skills, sporadic corruption appointments and delays in tender adjudication.

According to the financial information provided by firms, total fee income increased by 17,3% year to year in real terms, to R4 330 M (in 2000 prices, or R5 579 M in current prices). This is the strongest annual increase since the inception of the survey.

The SAACE MIS survey concluded that the industry's greatest challenge and concern is the lack of skills, irrespective of race or gender, amidst a growing utilisation of existing capacity. None of the firms expect a cut in employment, while there is a strong urgency to increase employment of engineers, technologists, other technical staff and technicians, as resources are pushed to the limit to cope with additional workload. More than 50% of the firms were already operating at full capacity, including smaller size of firms.

Although firms are subject to rigid procurement policies, despite succeeding in increasing black participation across all employment levels, increasing black participation at senior management and professional levels remains harder to achieve due to the unavailability of qualified and experienced black professionals in numbers large enough to cater for the industry. This situation will continue for a number of years to come. Competition in tendering eased to its lowest level, although the general view remains that competition is fierce. On average 68% of the respondents reported conditions to be very keen to fierce, compared to an average of 85% during 2000. A few firms (2,8%) even reported that competition in tendering was low.

Work engaged in the civil sector gained considerable market share during the last 12 months. Fee income also increased in electrical work, environmental studies, industrial services, mechanical services, mining, project management and quantity surveying. Three of the nine provinces reported a drop in real fee earnings during 2005, namely Eastern Cape, North West Province and Mpumalanga. Fee income earned by the local government represented 26,9% of total fee earnings, making it the sole largest government client in the industry. Over the last 12 months, work engaged by the government gained overall market share to the expense of the private sector.

Delayed payment trends are tracked in the SAACE MIS survey, the survey shows that al-though it is still unacceptable in a low return/high risk industry, it is pleasing to notice a reversal which has shown an improvement over the last two years. According to information from the survey, an estimated R744 M is outstanding for 90 days or more, as at December 2005. This means that on average, a lower 13,3% of total earnings have been outstanding for 90 days or more (including income earned from foreign clients), which is an improvement on the 15,8% of earnings outstanding in the June 2005 survey and the 16,6% reported in the December 2004 survey. Nonetheless, approximately 20% of the firms were still owed money in excess of 20% of their total fee earnings. The improvement was across all client types, except for an increase in monies outstanding from parastatals, which increased from 12,9% in the June 2005 survey to 30,2% in the current survey. Only a few firms were actively involved with parastatals, (mostly large to medium size of firms) and although it is the smallest client in the industry, responsible for only 6,6% of total fee earnings, at least 28% of the respondents that did get involved with parastatals, more than half were owed more than 20% of the fee income due, after 90 days or more. Thus involvement with parastatals appears to be more risky compared to other clients types. The largest client owing money to the industry, as a whole, remains the private sector, responsible for 35% of all monies outstanding in the industry, although it only represents 7,9% of fee income earned within the private sector.

Bursaries rose to 0,7% of the salary and wage bill, or an estimated R19 M (annualised), while direct training costs (excluding salaries) rose to 1,5% of the salary bill (up from 1,3% in the June 2005 survey). Despite an increase in bursaries in 2005 to a total of 14 million, much more is needed to promote and support engineering development in South Africa according to SAACE. In addition, the survey also states that smaller firms should be more actively involved in bursary deployment and not leave it as the domain of larger firms. Also of concern is the finding of candidates suitable for bursaries. This according to SAACE is a major challenge as the sector struggles to attract young engineers. With 60 to 70% of engineering services paid for by government, a perception of poor pay further discourages new entrants from the sector.

The improved financial outlook has certainly boosted business mood with the confidence index increased to 99,3 in December 2005, up from 96,8 in June 2006. However, the fact that fee income increased strongly during 2005, softer growth rates may be expected for the first half of 2006. The full MIS report is available on the SAACE website www.saace.co.za.

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